

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

June 15, 2010

Call to Order and Roll Call

The Capital Projects and Bond Oversight Committee met on Tuesday, June 15, 2010, at 1:00 PM, in Room 169 of the Capitol Annex. Representative Susan Westrom, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Representative Susan Westrom, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representatives Robert R. Damron, Steven Rudy, and Jim Wayne.

Guests: Bob Wiseman, University of Kentucky; Sam Ruth, Facilities and Support Services; Robin Brewer, Office of Financial Management; Sandy Williams, Kentucky Infrastructure Authority; and John Herald, Kentucky Housing Corporation.

LRC Staff: Kristi Culpepper, Don Mullis, Shawn Bowen, and Samantha Gange.

Approval of Minutes for April and May 2010

Representative Rudy made a motion to approve the minutes of the April 20, 2010, and the May 26, 2010, meetings. The motion was seconded by Senator Tori and approved by voice vote.

Resolution Honoring Don Mullis

Senator Leeper read a resolution honoring Don Mullis, Committee Staff Administrator, Capital Projects and Bond Oversight Committee, for his years of service to the Commonwealth and to the Committee. Senator Leeper made a motion to approve the resolution honoring Mr. Mullis. The motion was seconded by Representative Westrom and passed by voice vote.

Correspondence Items

Representative Westrom asked Kristi Culpepper, Committee Staff Administrator, to discuss correspondence items. Ms. Culpepper said members' folders contained several correspondence items: correspondence to Secretary Jonathan Miller, Finance and Administration Cabinet, and President James Votrubia, Northern Kentucky University, regarding lack of quorum at the May 26, 2010, Committee meeting; correspondence from Secretary Miller, regarding approval of projects from the May 26, 2010, meeting; correspondence from Tom Howard, Executive Director, Office of Financial Management

(OFM), regarding questions raised by Committee members concerning the state's outstanding debt. Ms. Culpepper said that according to OFM, the state had approximately \$7.71 billion of outstanding debt at the end of the last fiscal year.

Discussion of State Debt

Representative Westrom asked if the figures include debt that will be issued for the Kentucky Teachers Retirement System (KTRS). Robin Brewer, Financial Analyst, OFM, said the figures did not include that debt, but OFM would provide information to the Committee concerning the impact of the issuance of the KTRS bonds.

Representative Wayne asked if the figure included Federal Fund-supported debt. Ms. Brewer responded that the figure included General Fund, Agency Fund, Road Fund, and Federal Fund-supported debt. Representative Wayne asked if OFM could provide Committee staff with a figure that does not include Federal Fund-supported debt. Ms. Brewer responded affirmatively.

Representative Damron commented that other pieces of debt are included in the calculation but are not supported by General Fund dollars such as university debt. Ms. Brewer indicated she would provide Committee staff with information regarding the state's outstanding and authorized appropriation-supported debt broken down by General Fund, Agency Fund, Road Fund, and Federal Fund.

Ms. Culpepper said that correspondence items also included a letter from Sam Ruth, Commissioner, Department for Facilities and Support Services, regarding questions raised by Committee members concerning energy usage savings for state-owned buildings; and a report of a plan from the Division of Engineering and Contract Administration to use the Design-Build project delivery method for the Kentucky Department for Fish and Wildlife, Salt Lick Stream Restoration project in Bath County.

Representative Westrom asked how the Cabinet measures and verifies energy savings. Mr. Ruth said a consultant is hired to examine the facility as well as past utility bills, and suggests changes. Once the changes are implemented, the consultant measures and verifies the savings.

Information Items

Ms. Culpepper indicated that members' folders contained several information items: a ratings report added after the mail-out regarding Fitch Ratings downgrade of Kentucky's appropriation-supported debt from AA to AA-; Moody's Investors Service 2010 State Debt Medians; appropriation-supported debt service as a percent of revenues provided by LRC budget staff; and the staff and bond market updates.

Representative Westrom requested that the information items concerning the state's credit ratings be sent to Interim Joint Committee on Appropriations and Revenue.

Lease Reports from the University of Kentucky

Representative Westrom asked Bob Wiseman, Vice President for Facilities Management, University of Kentucky (UK), to report three items related to leases. Mr. Wiseman said the first item was a lease modification between UK and the UK Federal Credit Union (PR-8303). The space was previously occupied by the College of Pharmacy while their new building was under construction. The college has moved and the university is taking advantage of the available space for research and instruction. With minor modifications, the space can be used by other university entities and allow the university to use scarce campus space for research and instruction. The cost of modifications, \$32,000, will be amortized over the remaining lease term (through December 2012).

Representative Damron made a motion to approve the lease modification. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Mr. Wiseman said the next two items were lease renewals for the Department of Psychiatry (PR-8197) and the Department of Social Work (PR-8311). The annual cost for space for the Department of Psychiatry is \$474,592 through June 30, 2014, and was authorized in the 2010 Special Session HB 1 (2010-2012 Budget). The annual cost for space for the Department of Social Work is \$193,653 through June 30, 2013.

Senator Leeper made a motion to approve the two lease renewals for UK. The motion was seconded by Senator Carroll and approved unanimously by roll call vote.

Lease Reports from the Finance and Administration Cabinet

Representative Westrom asked Mr. Ruth to report several items related to leases. Mr. Ruth said the first item was a report of changes in square footage for six state leases for the period January through March 2010. The lease modifications were less than \$50,000 and did not require Committee action.

In response to a question from Representative Damron, Mr. Ruth said all tenants that occupied space at the UK Spindletop Complex in Lexington were asked to vacate to make room for the new battery lab.

Mr. Ruth said the Finance and Administration Cabinet is reporting the amortization of leasehold improvements for two state leases. The Cabinet for Health and Family Services in Jessamine County (PR-3557) has submitted a request to complete improvements to its leased facility to convert an old smoke room off of a reception area. The cost of modifications, \$1,275, will be amortized over the remaining lease term (through June 30, 2010). The second modification was for the Department of Agriculture in Franklin County (PR-4804). The Department has submitted a request to complete improvements to its leased facility to accommodate a dishwasher for laboratory

equipment. The cost of the modifications, \$2,696, will be amortized over the remaining lease term (through June 30, 2011). No Committee Action was required.

Mr. Ruth said the last item was a report of an emergency lease for the Department for Workforce Investment in Rowan County (PR-5110). The Morehead State Office Building, which houses Department staff, was damaged by several inches of water during the May 2010 flooding. The lease is expected to be in effect for three months while the building is returned to a safe working condition. No action is required for emergency leases.

Kentucky Infrastructure Authority Fund A Loans

Representative Westrom asked Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority (KIA) to present several loans. Ms. Williams said the first loan request was a \$1,500,000 Fund A loan for Oldham County Sewer District (District) in Oldham County for construction of the Buckner Interceptor Sewer and Mockingbird Valley Wastewater Treatment Plant Elimination project. The loan term is 20 years with an interest rate of two percent.

Representative Wayne asked why the rate increases were so high. Ms. Williams said that factors other than debt service were taken into consideration when determining the calculation for the rate increase such as operations of the system.

In response to another question from Representative Wayne, Ms. Williams said that District's governing body has the authority to pass the rate increases.

Senator Tori asked if the customers were aware of the rate increases. Ms. Williams responded affirmatively.

The second loan request was a \$1 million Fund A loan for the District for construction of the Inflow and Infiltration Corrections and State Route 1793 Lift Station Replacement project. The loan term is 20 years with an interest rate of three percent.

The third loan request was a \$1,930,000 Fund A loan for the District for construction of a force main along Interstate 71 and the dismantling of the Orchard Grass and Willow Creek Wastewater Treatment Plants. The loan term is 20 years with an interest rate of three percent.

In response to a question from Senator Tori, Ms. Williams said all the loans for Oldham County are for system improvements to comply with notices of violation issued by the Division of Water.

The fourth loan request was a \$10,500,000 Fund A loan for the Lexington-Fayette Urban County Government (LFUCG) for the relocation and expansion of the Wolf Run

Pump Station. This project is part of a Consent Decree with the US Environmental Protection Agency. The loan term is 20 years with an interest rate of three percent.

Representative Westrom asked if this project will satisfy all the requirements of the Consent Decree. Ms. Williams said the project will satisfy a significant portion of the requirements, but not all of them.

The fifth loan request was a \$3,928,375 Fund A loan for LFUCG for the Expansion Area 2A project to address rapid development and growth. The loan term is 20 years with an interest rate of three percent.

Representative Rudy made a motion to approve the five Fund A loan requests. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Representative Damron asked for the current balance for Fund A loans. Ms. Williams said KIA currently has pending applications for this funding cycle and at the end of this funding cycle KIA will have approximately \$20 million that is uncommitted. Ms. Williams indicated that she would provide Committee staff with further information regarding what will be available for the next funding cycle.

Representative Damron commented that he has concerns with loans being given to larger borrowers such as Lexington and Louisville, which are able to borrow funds on their own. He asked Committee staff to monitor how the loans are being disbursed.

KIA Fund B Loan

The sixth loan request was a \$1,000,000 Fund B loan/grant for Marshall County Fiscal Court in Marshall County for the construction of two 150,000 gallon elevated storage tanks, PVC main, and the necessary appurtenances to connect tanks to existing lines. The financing for this project will be offered as 80 percent grant and 20 percent loan. The loan term is 20 years with an interest rate of three percent.

In response to a question from Senator Leeper, Ms. Williams said KIA has requested a copy of the Interlocal Agreement be provided prior to disbursement of funds.

Senator Leeper made a motion to approve the Fund B loan. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

KIA Fund F Loan

The seventh loan request was a \$1,694,000 Fund F loan for Columbia/Adair County Water Commission in Adair County for a number of improvements at the new wastewater treatment plant and raw water intake sites. The loan term is 20 years with an interest rate of one percent.

Representative Rudy made a motion to approve the Fund F loan. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

KIA Grants

Ms. Williams indicated various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

In response to a question from Representative Rudy, Ms. Williams said there were two different waves of grant agreements that KIA sent out to counties and all coal and tobacco grant funds will be disbursed as authorized in the 2010 Special Session.

New Bond Issue – State Property and Buildings Commission No. 98

Representative Westrom asked Ms. Brewer to present two new bond issues. The first new bond issue was for the State Property and Buildings Commission (SPBC) Revenue and Revenue Refunding Bonds, Project No. 98. Proceeds from this bond issue will provide \$22.9 million in additional permanent financing for the Kentucky Human Resource Information System (KRIS) project authorized by the General Assembly in 2010 Special Session HB 1. This transaction will also refund outstanding SPBC and Asset/Liability Commission bonds to provide approximately \$140.7 million in budgetary relief for Fiscal Year 2011. The \$140.7 million in budgetary relief is achieved by pushing the payments on the state's outstanding debt into later years.

Senator Leeper asked how much additional debt the state can restructure to generate budget relief. Ms. Brewer said this will be the only bond issue for budgetary relief for Fiscal Year 2011, but another debt restructuring is anticipated for Fiscal Year 2012.

Representative Damron asked if this refunding generates a net present value savings. Ms. Brewer indicated that the savings was negative and OFM would provide the information to Committee staff.

In response to a question from Senator Carroll, Representative Damron indicated that investors typically use a four percent savings threshold for refunding issues. He said that this refunding issue reduces the state's required debt service now, but will increase the state's required debt service in future years. Ms. Brewer commented that this bond issue is not for economic savings, but budgetary relief.

In response to a question from Representative Westrom, Ms. Brewer said other states are also using debt restructuring for budgetary relief. She said Kentucky restructured approximately \$45-50 million in Fiscal Year 2009 and \$113 million in Fiscal Year 2010.

Senator Buford commented that he was concerned with the fees associated with refundings such as paying for the bond counsel and rating agencies.

Senator Leeper made a motion to approve the new bond issue for SPBC. The motion was seconded by Senator Tori. Seven members voted affirmatively, and one member voted “No.” The motion passed.

New Bond Issue - Kentucky Housing Corporation

Ms. Brewer said the second new bond issue was for Kentucky Housing Corporation (KHC) Single Family Housing Revenue Bonds 2010 Series C, D, and E. Proceeds from this issue will refund outstanding Series 1999 H, 2000 B, 2000 C, 2002 G, 2003 E, 2004 C, 2004 E, and 2004 I bonds. The refunding will generate a savings and convert some variable rate debt to a fixed rate. The refunding will also improve the tax status on the bonds.

Representative Wayne made a motion to approve the new bond issue for KHC. The motion was seconded by Senator Leeper and passed unanimously by roll call vote.

School Bond Issues

Ms. Brewer reported six new bond issues with the School Facilities Construction Commission (SFCC) debt participation for Bardstown Independent in Nelson County, Beechwood Independent in Kenton County, Christian County, Grant County, Grant County, and Warren County.

Senator Leeper made a motion to approve the six SFCC bond issues. The motion was seconded by Representative Wayne and passed unanimously by roll call vote.

Representative Westrom asked Ms. Culpepper to report the new local school bond issues. Ms. Culpepper said there were two new school district bond issues with 100 percent local debt support for Daviess County and Paducah Independent in McCracken County. All disclosure information has been filed. No Committee action was needed.

With there being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 2:05 p.m.